



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

# TechWatch

News at a glance



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TechWatch updates you on technical developments in financial reporting, auditing, ethics, regulation and business. The Institute welcomes your comments, emailed to < [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) >. Click [here](#) for past issues.

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## Financial Reporting, Auditing and Ethics

### New!

#### 1. New Technical Learning and Support Programme in July 2015

A **technical update evening** on common questions by SMPs when applying the Code of Ethics for Professional Accountants ("Code") will be held on 21 July 2015.

### Members' Handbook

#### 2. Handbook Update No. 170

**Update No. 170** contains Accounting Bulletin 6 *Guidance on the Requirements of Section 436 of the Hong Kong Companies Ordinance Cap. 622* ("AB 6"). AB 6 provides guidance on the requirements concerning the publication of 'specified financial statements' or 'non-statutory accounts' by any Hong Kong incorporated company, as set out in section 436 of the new Hong Kong Companies Ordinance, Cap. 622. Section 436 applies in relation to 'specified financial statements' and 'non-statutory accounts' for financial years beginning on or after 3 March 2014.

### Financial Reporting

#### 3. The Institute's Financial Reporting Standards Committee Meeting Minutes

The **minutes** for the FRSC meeting held on 12 May 2015 is now available and covers the following key items:

- Application issue on an insurance broker's accounting treatment for insurance premium receivable from policyholders
- HKICPA's submission on IASB ED/2015/1 *Classification of Liabilities* (Proposed amendments to IAS 1); and
- A report from the Companies Ordinance Working Group's activities.

#### 4. Invitations to Comment on IASB EDs

- (i) IASB ED/2015/3 *Conceptual Framework for Financial Reporting* and IASB ED/2015/4 *Updating References to the Conceptual Framework*

The Institute has issued an **Invitation to Comment** on IASB Exposure Draft ("ED") ED/2015/3 and IASB ED/2015/4 and requested for comments to the Institute by **14 September 2015**.

The proposals aim to improve financial reporting by providing a more complete, clearer and updated set of concepts that can be used by the IASB when it develops IFRS and others to help them understand and apply those Standards. ED/2015/3 proposes a number of enhancements to the *Conceptual Framework*. The Proposals include:

- (a) a new chapter on measurement that describes appropriate measurement bases (historical cost and current value, including fair value), and the factors to consider when selecting a measurement basis;
- (b) confirming that the statement of profit or loss is the primary source of information about a company's performance, and adding guidance on when income and expenses could be reported outside the statement of profit or loss, in 'Other Comprehensive Income'; and
- (c) refining the definitions of the basic building blocks of financial statements – assets, liabilities, equity, income and expenses.

The IASB proposes to place more emphasis on the importance of providing information needed for investors to assess management's stewardship, and to reintroduce an explicit reference to 'prudence', explaining clearly what it means.

In addition, the IASB has published ED/2015/4 to update, in existing Standards, references to, and quotes from, the existing version of the *Conceptual Framework* or the version that was replaced in 2010 so that they refer to the revised *Conceptual Framework*.

- (ii) IASB ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (Proposed amendments to IAS 19 and IFRIC 14)

The Institute has issued an [Invitation to Comment](#) on IASB ED/2015/5 and requested for comments to the Institute by **21 September 2015**.

The ED contains proposed narrow-scope amendments to the IASB's pension accounting requirements to improve the information provided in an entity's financial reports and to address some diversity in practice.

When a defined benefit plan is amended, curtailed or settled during a reporting period, the entity needs to update the assumptions about its obligation and fair value of its plan assets to calculate costs related to these changes. The proposed amendments to IAS 19 *Employee Benefits* specify that the entity is required to use the updated information to determine current service cost and net interest for the period followed by these changes.

The proposed amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction* address (i) whether other parties' power to enhance benefits for plan members or wind up a plan affects the availability of a refund; and (ii) the interaction between the asset ceiling and the past service cost or a gain or loss on settlement.

## 5. Institute Comments on IASB ED

The Institute [commented](#) on IASB ED/2015/1 *Classification of Liabilities*.

The Institute supports the IASB's initiative to clarify the criteria for classification of a liability as current or non-current. The Institute generally agrees with most of the proposed amendments but have serious concerns about deleting the term 'unconditional' from paragraph 69(d) of the existing IAS 1 *Presentation of Financial Statements*. The term 'unconditional' carries paramount significance in the determination of a liability's classification in Hong Kong. The Institute considers that deleting this term may have unintended consequences on the classification of a liability.

## Audit & Assurance

### 6. The Institute's Auditing and Assurance Standards Committee Meeting Minutes

The [minutes](#) for the AASC meeting held on 19 May 2015 covered the following key items:

- Revised PN 730 *Guidance for Auditors Regarding Preliminary Announcements of Annual Results*
- Update on the Auditor's Report for Non-Consolidation of Financial Statements Prepared in Accordance with the New Companies Ordinance
- Update on Auditor's Reporting Engagement Plan
- Definition of Listed Entity under Proposed HKSA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*
- Proposed HKSAs on Auditor's Reporting
- Proposed Draft Report under New ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*

### 7. Invitation to Comment on ED PN 730

The Institute has issued an [Invitation to Comment](#) on ED Revised Practice Note ("PN") 730 *Guidance for Auditors Regarding Preliminary Announcements of Annual Results*, and requested for comments to the Institute by **25 July 2015**.

In April 2015, the Stock Exchange of Hong Kong Limited published the Amendments to the Listing Rules relating to disclosure of financial information. These amendments were made to implement proposals in the consultation conclusions on 'Review of Listing Rules on Disclosure of Financial Information with Reference to New Companies Ordinance and Hong Kong Financial Reporting Standards and Proposed Minor/Housekeeping Rule Amendments'.

PN 730 is revised mainly to incorporate changes arising from the new Companies Ordinance (Cap. 622) and the Listing Rule amendments.

## Ethics

### 8. Invitation to Comment on IESBA ED 'NOCLAR'

The Institute has issued an [Invitation to Comment](#) on IESBA ED *Responding to Non-Compliance with Laws and Regulations* and requested for comments to the Institute by **14 August 2015**.

The IESBA issued its first exposure draft of its proposal, *Responding to a Suspected Illegal Act* in August 2012 to guide the professional accountants in dealing with an act or suspected act of non-compliance with laws and regulations ("NOCLAR"). As a result of the significant comments on the first exposure draft, the IESBA has now developed a revised approach for professional accountants to respond to instances of NOCLAR or suspected NOCLAR.

The proposed standard sets out a new framework to guide auditors, other professional accountants in public practice, and professional accountants in business ("PAIB") in deciding how best to act in the public interest when they come across an act or suspected act of NOCLAR.

Among other matters, the proposed standard equips auditors and other professional accountants to address such issues by providing a pathway to disclosure to an

appropriate authority in appropriate circumstances without the duty of confidentiality under the Code acting as a barrier. It also places renewed emphasis on the importance of senior-level PAIBs promoting a culture of compliance with laws and regulations within their organizations.

## International Meetings

### 9. International Accounting Standards Board

The IASB met on 22-25 June 2015 and discussed the following topics:

- Revenue from Contracts with Customers
- Insurance Contracts
- IFRS Implementation Issues
- Financial Instruments with Characteristics of Equity
- Disclosure Initiative
- The Equity Method of Accounting
- Pollutant Pricing Mechanisms
- Research Programme

Click to view the [IASB Update](#) for this meeting. The IASB next meets on 20-24 July 2015.

### 10. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets on **14 July 2015**.

### 11. IASB Accounting Standards Advisory Forum

The IASB ASAF next meets on **16-17 July 2015**.

The Institute, as Chair organization of the Asian-Oceanian Standard-Setters Group, will participate and represent the views from our region including Hong Kong's views at this meeting.

## 12. International Auditing and Assurance Standards Board

The IAASB met on 15-19 June 2015 and discussed the following key topics:

- NOCLAR
- Data Analytics
- Auditor Reporting: Effective Date
- ISA 800 *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks / ISA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- ISA 810 *Engagements to Report on Summary Financial Statements*
- Group Audits – Staff Practice Alert
- Group Audits
- Agreed-upon Procedures
- Coordinated Approach to Projects of quality control, group audits and special considerations in auditing financial institutions
- Professional Skepticism
- Special Audit Considerations Relevant to Financial Institutions
- Quality Control
- Integrated Reporting

Click to view the [meeting summary](#) for this meeting. The IAASB next meets on 21-25 September 2015.

## 13. International Ethics Standards Board for Accountants

The IESBA met on 29 June – 1 July 2015 and discussed the following key topics:

- Structure of the Code
- Long Association of Personnel with an Audit Client
- Fee-related Issues
- Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles
- Safeguards
- Emerging Issues and Outreach Committee

Click to view the [meeting summary](#) for this meeting. The IESBA next meets on 15-16 September 2015.

### Useful Resources

## 14. Publications

KPMG published an [update](#) that discusses gaining exemption from preparing a business review.

PwC published a [guide](#) that outlines the new IFRSs that come into effect for 2015 year ends.

### Comment Due Dates

Comments to the Institute on the following EDs are due by:

**25 July 2015:** ED Revised PN 730 *Guidance for Auditors Regarding Preliminary Announcements of Annual Results*

**14 August 2015:** IESBA ED on *Responding to Non-Compliance with Laws and Regulations*

**14 September 2015:** IASB ED/2015/3 *Conceptual Framework for Financial Reporting* and IASB ED/2015/4 *Updating References to the Conceptual Framework*

**21 September 2015:** IASB ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (Proposed amendments to IAS 19 and IFRIC 14)

## Advocacy and Practice Development/ Member Support

### Small & Medium Practitioners

#### 15. Innovation in Financing SMEs: An Opportunity for SMPs

Fayez Choudhury, Chief Executive Officer of International Federation of Accountants ("IFAC")'s [latest viewpoint](#) focuses on innovation in small- and medium-sized entities ("SME") finance and the opportunities this brings to SMPs.

SMPs are encouraged to respond to the 3-question micro poll and offer comments on this subject, in response to Fayez's request: "We are keen to hear of other innovative approaches to SME financing and encourage you to share them in the comments below. Through sharing such experiences and knowledge, we believe that the accountancy profession can play a major role in improving access to finance. A future article will feature these approaches suggested by readers."

### Corporate Governance

#### 16. Best Corporate Governance Disclosure BCGDA 2015 Invites Entries

Now in its 16<sup>th</sup> year, the [Best Corporate Governance Disclosure Awards](#) ("BCGDA") is highly regarded as a benchmark of Hong Kong's current corporate governance standards. A media briefing to launch the BCGDA 2015 was held on 26 June.

BCGDA focuses on and encourages voluntary disclosures of governance information in annual reports which is useful for stakeholders and which clearly exceeds the minimum disclosure requirements.

There are five categories of awards in BCGDA, namely Hang Seng Index ("HSI"), non-HSI (with

separate categories for large companies and mid-to-small companies by market capitalization), H-share companies and other Mainland enterprises, and public sector/not-for-profit organizations. Awards will also be presented for outstanding sustainability and social responsibility reporting.

Take this opportunity to show support for good corporate governance by encouraging your company or public sector organization to participate in BCGDA. The deadline for entry is **13 August 2015**. Click for the [press release](#) and the [entry form](#).

### Corporate Finance

#### 17. Consultation Conclusions to Concept Paper on Weighted Voting Rights

On 19 June, the Hong Kong Exchanges and Clearing ("HKEx") published [conclusions](#) to its concept paper on weighted voting rights ("WVR"), which sought views on whether governance structures that give certain persons voting power or other related rights disproportionate to their shareholding ("WVR structures") should be permissible for companies listed or seeking to list on the HKEx.

The Institute's [response](#) to the concept paper was reported in [TechWatch no. 146](#) (item 13).

After considering all the responses to the concept paper, HKEx concluded that there is support for a second stage consultation on proposed changes to the Listing Rules on the acceptability of WVR structures. It is in the process of finalizing a draft proposal, intended to be refined through discussions with stakeholders before putting it forward for formal consultation in the third or fourth quarter of 2015.

On 25 June, the Securities and Futures Commission ("SFC") announced that its board did not support HKEx's draft proposal for primary listings with WVR structures. The views of the SFC board are contained in the [press release](#).

## 18. HKEx Decides to Introduce Volatility Control Mechanism and Closing Auction Session

On 3 July, HKEx published [consultation conclusions](#) on the proposed introduction of a Volatility Control Mechanism ("VCM") to safeguard its securities and derivatives markets and a Closing Auction Session ("CAS") in its securities market to facilitate trade execution at securities' closing prices.

Having considered the responses and the rationales behind them, HKEx concluded that there is substantial market support for the introduction of a VCM and a CAS in the Hong Kong market, and it would proceed with the implementation of the two initiatives. The VCM and CAS models to be adopted will be substantially the same as proposed in the [consultation paper](#), with fine-tuning of some features based on market feedback. Fine-tuned features and implementation details are summarized in the [press release](#). Further details of HKEx's conclusions are highlighted in the [questions and answers](#).

The market will be given one year to prepare for the implementation of these two initiatives.

## 19. SFC Concludes Consultation on Supervisory Assistance to Regulators Outside Hong Kong

The SFC has recently released [consultation conclusions](#) on proposed amendments to the Securities and Futures Ordinance ("SFO") for providing assistance to regulators outside Hong Kong.

Having considered the comments of all the respondents, the SFC has decided to propose legislative changes to enable the SFC to provide a particular form of supervisory assistance to regulators outside Hong Kong, upon request, by making enquiries and obtaining certain records and documents from licensed corporations or their related corporations. The proposed supervisory assistance, which will be subject to both existing and new legislative safeguards, will give the SFC discretion to provide supervisory

assistance to a regulator outside Hong Kong but will not impose an obligation to do so. Information obtained in this manner may only be used for non-enforcement purposes.

These proposals will enhance the SFC's ability to enter into reciprocal supervisory arrangements with regulators outside Hong Kong that will include two-way exchanges of relevant supervisory information.

## Taxation

### 20. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- The Chinese version of the below Stamp Office Interpretation and Practice Notes ("SOIPN"):
  - [SOIPN No. 1 \(Revised\) – Stamping of Agreements for Sale and Purchase of Immovable Property](#)
  - [SOIPN No. 5 \(Revised\) – Special Stamp Duty](#)
  - [SOIPN No. 7 – Buyer's Stamp Duty](#)
  - [SOIPN No. 8 – Ad Valorem Stamp Duty](#)
- [Agreement between Hong Kong and Japan](#) on expanding the taxes covered in the exchange of information article of the Hong Kong-Japan double taxation agreement has **come into effect**
- [A newspaper notice](#) about tax obligations of property owners
- The gazette of [the Inland Revenue \(Amendment\) \(No. 3\) Bill 2015](#), aiming to enhance the tax appeal mechanism and improve the efficiency and effectiveness of the Board of Review
- [The Performance Pledge Annual Report 2014/15](#)

## Legislation & Other Initiatives

### 21. Legislation to Establish Independent Insurance Authority is Passed

The Insurance Companies (Amendment) Ordinance 2015 has been passed by the Legislative Council. The ordinance will be implemented in phases, which will involve the setting up of a provisional Insurance Authority, co-existing with the Office of the Commissioner of Insurance ("OCI") (Stage 1); the independent Insurance Authority's taking over of the work of OCI (Stage 2); and commencement of a licensing regime for insurance intermediaries to replace the existing self-regulatory regime (Stage 3). The whole process is expected to take two to three years to complete. For further information, see the [press release](#) and [highlights of the legislation](#).

### 22. Anti-Money Laundering Notices

Members may wish to note the following notices and publications in relation to anti-money laundering/ combating the financing of terrorism ("AML"):

- **Government notice 3923**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 4490**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 4491**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Iran) Regulation.
- The Financial Action Task Force ("FATF") issued a [FATF public statement](#), identifying jurisdictions with strategic AML/CFT deficiencies that pose risk to the international financial system.
- **US executive order 13224**: The list relating to "Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism".

For more AML-related circulars from the office of the commissioner of insurance, click [here](#).

For more background information on the current law in Hong Kong relating to AML/CFT, see the Institute's [Anti-money Laundering Bulletin 1](#), "Requirements on anti-money laundering, anti-terrorist financing and related matters", and the [supplement](#) on suspicious transaction reporting.

## Useful Resources

### 23. Library Resources

**Featured titles** and **new books** for members' reference are now available.

In addition, members can [login](#) to the [e-Library](#) and access e-journals and e-books on a wide range of business subjects.

### 24. Other Publications

(i) HKEx has published:

- New listing decisions to provide guidance on:
  - why HKEx returned certain listing applications ([HKEx-LD91-2015](#))
  - why HKEx rejected certain listing applications ([HKEx-LD92-2015](#))
- An updated listing decision on whether the inclusion of unaudited financial information of the acquired group (comprising the income statement, balance sheet, statement of changes in equity and cash flow statement) in the listing document of a listing applicant should be allowed? ([HKEx-LD43-2](#))
- New guidance on mixed media offer ([HKEx-GL81-15](#)) and the [use of a mixed media offer](#)
- An updated [frequently asked questions series 13](#) on rule amendments relating to mixed media offer

- An updated guidance on suitability for listing ([HKEx-GL68-13](#))
- [Report](#) on initial public offering applications, delisting and suspensions (as at 30 June)

(ii) SFC has published:

- [Issue no. 33 of Takeovers Bulletin](#), which highlights revisions to Practice Note 20 related to announcements and documents under the Codes on Takeovers and Mergers and Share Buy-Backs, and a reminder about submission of Code-related announcements and documents to the SFC for pre-vetting prior to their release
- [2014 -15 annual report](#) and the related [press release](#)

(iii) Other publications:

- [DNA of a CFO](#) by Hays
- [2015 CFO Outlook Asia – a survey of chief financial officers](#) by The Economist Intelligence Unit
- [Building and sustaining an effective board](#) by CPA Canada
- [Private Equity Spotlight: Exploring Regional Trends](#) by KPMG
- [Unlocking the potential of the Internet of Things](#) by McKinsey & Company